

Message Text

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15

ACTION EB-11

INFO OCT-01 AF-10 ARA-16 EUR-25 EA-11 NEA-14 ISO-00 FEA-02

AEC-11 AID-20 CEA-02 CIAE-00 CIEP-03 COME-00 DODE-00

FPC-01 H-03 INR-11 INT-08 L-03 NSAE-00 NSC-07 OMB-01

PM-07 RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00

FRB-03 PA-04 USIA-15 PRS-01 DRC-01 /230 W

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FM AMEMBASSY LAGOS

TO SECSTATE WASHDC PRIORITY 6114

INFO AMEMBASSY ABU DHABI

USINT ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY BRUSSELS

AMEMBASSY CARACAS

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

USMISSION OECD PARIS

AMEMBASSY QUITO

AMEMBASSY ROME

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

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DEPT PASS USINT BAGHDAD

E.O.: 11652: N/A

TAGS: ENRG, OPEC

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SUBJ: NIGERIA PONDERES OPEC PRICE DECISIONS

REF: VIENNA 7943

1. EMBASSY HAS DISCUSSED OPEC PRICE CHANGES WITH SEVERAL NIGERIAN OFFICIALS INCLUDING TWO WHO ATTENDED OPEC ECONOMIC COMMISSION BOARD MEETING AND ONE WHO WAS PRESENT AT THE MINISTERIAL MEETING. NONE WAS ABLE TO EXPLAIN INCREASE OF GOVERNMENT TAKE FOR MARKER CRUDE FROM \$9.41 PER BARREL TO \$9.74 OR HOW THIS WOULD APPLY TO NIGERIA.

2. NIGERIAN NATIONAL OIL CORPORATION SEEMS TO HAVE BEEN WHOLLY UNPREPARED FOR CHANGES IN TAX AND ROYALTY RATES. EVER SINCE THE PARTICIPATION AGREEMENTS OF LAST APRIL, NNOC AND THE PRODUCING COMPANIES HAVE BEEN WORKING OUT PROCEDURES FOR TAX AND ROYALTY PAYMENTS, BUT THESE NOT YET COMPLETE, AND THE OPEC DECISION GREATLY COMPLICATES THE TASK.

3. PRODUCING COMPANIES NO BETTER INFORMED THAN ANYONE ELSE. (THEY, NNOC, AND MINISTRY OF MINES AND POWER GREATLY APPRECIATE TEXT OF OPEC COMMUNIQUE WHICH EMBASSY ABLE SUPPLY FROM REFTEL.) COMPANIES HOPE THEIR TOTAL TAX AND ROYALTY PAYMENTS WILL INCREASE ONLY 3.5 PERCENT BUT FEAR THAT ENTIRE 3.5 PERCENT INCREASE OF GOVERNMENT TAKE WILL BE BORNE BY THEIR EQUITY OIL (45 PERCENT OF TOTAL PRODUCTION). IN THIS CASE, INCREASE FOR THEM IS SEVERE.

4. EMBASSY WAS AT FIRST NOT ABLE UNDERSTAND BASIS FOR OPEC'S FIGURE OF \$9.41 FOR EIRD QUARTER WEIGHED AVERAGE GOVERNMENT TAKE (WAGT) FOR MARKER CRUDE. ACCORDING PRESS REPORTS, OPEC USED BUY-BACK PRICE EQUAL TO 94.8 PERCENT OF POSTING INSTEAD OF 93 PERCENT, AND MPIS EXPLAINS \$9.41 WAGT. EMBASSY CALCULATIONS WHICH FOLLOW MADE IN SAME WAY.

5. THIRD QUARTER WAGT IN NIGERIA IS ABOUT \$10.54 PER BARREL (BASED ON BUY-BACK PRICE OF \$12.50 AND ESTIMATED PRODUCTION COSTS OF \$.50 PER BARREL). IF FMG INCREASES ROYALTY RATE FROM 14.5 TO 16.67 PERCENT AND IF BURDEN OF INCREASED WAGT FALLS ENTIRELY ON PRODUCING COMPANIES, ANY ONE OF THE FOLLOWING WOULD ALSO BE REQUIRED TO INCREASE WAGT 3.5 PERCENT (I.E. TO \$10.91):
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(A) INCREASING PROFITS TAX FROM 55 TO 61 PERCENT, (B) IMPOSING NEW EXPORT TAX WHICH, FOR EXAMPLE, COULD BE SET AT ABOUT 5 PERCENT OF POSTED PRICE, IOR (C) INCREASING BUY-BACK PRICE FROM 84 TO 89 PERCENT OF POSTED PRICE. OF COURSE AN ADJUSTED COMBINATION OF THESE CHANGES, OR TERMS MORE OR LESS BURDENSOME THAN IMPLIED BY THE OPEC COMMUNIQUE MIGHT BE ADOPTED.

6. IF NIGERIA RAISED BUY-BACK PRICE TO OPEC STANDARD 93 PERCENT

OF POSTED PRICE, WAGT INCREASE OF 3.5 PERCENT WOULD REQUIRE REDUCTION RPT REDUCTION OF EITHER ROYALTY RATE TO 5.3 PERCENT (WITH 55 PERCENT TAX RATE) OR TAX RATE TO 50 PERCENT (WITH 14.5 ROYALTY RATE). EMBASSY BELIEVES ANY RATE REDUCTION IS UNLIKELY AND BUY-BACK PRICE THEREFORE NOT LIKELY GO AS HIGH AS 93 PERCENT.

7. OPEC MARKER CRUDE CASE IMPLIES INCREASE OF ROYALTY RATE TO 16.67 PERCENT AND PROFITS TAX RATE TO 62 OR 66 PERCENT (DEPENDING OF CHOICE OF 94.8 OR 93 PERCENT BUY-BACK PRICE) -- OR IMPOSITION OF 6 OR 9 PERCENT EXPORT TAX. IF THESE VALUES TRANSFERRED TO NIGERIA, WAGT INCREASE OF 3.5 PERCENT WOULD REQUIRE REDUCTION RPT REDUCTION OF GUY-BACK PRICE TO 82 OR 84 PERCENT OF POSTED PRICE FROM PRESENT 85 PERCENT.

8. CONCLUSIONS: COMPLEXITY OF OPEC PRICE DECISION (AND FACT THAT MANY KEY NIGERIAN PETROLEUM OFFICIALS ARE ABSENT) MAY DELAY ITS IMPLEMENTATION IN NIGERIA UNTIL SOME TIME AFTER BEGINNING OF FOURTH QUARTER. ADMINISTRATIVE CAPACITY OF FMG AND NNOC TO RESPOND TO EACH NEW TWIST OF OPEC FORMULATIONS IS BEING SEVERLY TESTED. PRODUCING COMPANIES FACE ANOTHER ROUND OF PRICE RECALCULATIONS JUST AS TERRMS IN NIGERIA WERE SETTLING DOWN TO A NEW "NORMALITY." NEGOTIATION OF BUY-BACK PRICES FOR FOURTH QUARTER HAS BEEN GREATLY COMPLICATED, AND, ALTHOUGH DIFFERENCE BETWEEN BUY-BACK PRICE OR GOVERNMENT SALE PRICE AND AVERAGE TAX-PAID COST FOR THE PRODUCING COMPANIES WILL HAVE BEEN REDUCED, THE GOVERNMENT'S CAMPAIGN TO FIND BUYERS FOR PARTICIPATION OIL HAS ALSO BEEN COWPLICATED, AT LEAST MOMENTARILY BY THE NEW PRICE UNCERTAINTIES. A MAJOR CONSEQUENCE OF THE DECISION IS TO LINK BUY-BACK PRICES TO TAX AND ROYALTY RATES (I.E. TO CONSIDER GOVERNMENT TAKE AS SUM OF TAXES, ROYALTIES, AND BUY-BACK MARGINS). IF ADOPTED, THIS WILL GIVE LESS FLEXIBILITY TO A COUNTRY LIKE NIGERIA (WHERE WAGT ACTUALLY LOW IN THIRD QUATER THAN IN SECOND) TO CHANGE BUY-BACK PRICES IN ACCORDANCE WITH MARKET CONDITIONS.

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REINHARDT

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